FISCAL NOTE

HB 3041

March 24, 2006

SUMMARY OF BILL: Enacts a new tax upon employers in the state having 75 or more employees, under specified conditions, to be used as health preservation contributions (HPC). Such tax shall be paid as a privilege tax and levied at a rate computed by multiplying the wages paid each identified employee by 6%. Requires funds to be collected by the Commissioner of the Department of Revenue (DOR) and be deposited into the General Fund. Authorizes the Commissioner of the DOR to promulgate rules and regulations to effectuate the purposes of this act.

ESTIMATED FISCAL IMPACT:

Increase State Revenues – Exceeds $1,000,000,000

Increase State Expenditures – Exceeds $700,000 Recurring
$450,000 One-Time

Assumptions:

- According to the Department of Labor and Workforce Development (LWD), the total number of non-governmental employees (NGE) is approximately 2,931,000.
- Government employees and employees for non-profit organizations have been excluded.
- According to LWD, approximately 26.3% of NGE (770,000) are employees working for companies with less than 75 total employees.
- 15% of NGE (440,000) are estimated to be employees that work for employers for fewer than 90 days, employees that work less than 30 hours per week, or employees that perform services under contract for periods of less than 5 months.
- 10% of NGE (293,000 people) are employees covered by a group or non-group health benefit plan, financed without any participation by the employer, or who is enrolled in Medicare.
- 1,428,000 individuals are estimated to meet the definition of employee as proposed in this bill (2,931,000 – 770,000 – 440,000 – 293,000 = 1,428,000).

- Tax base is derived from approximately 1,428,000 total employees.
- Each of the 1,428,000 employees earns an average salary of $35,000 per year.
- Taxable portion is $12,000 ($35,000 average salary – the medical security wage base of $23,000 = $12,000).
- Tax base for FY06-07 is estimated to be $17.14 billion (1,428,000 employees X $12,000 = $17,136,000,000).
- The increase to state revenues resulting from the privilege tax is estimated to be $1.03 billion ($17.14 billion base X 6% privilege tax = $1,028,400,000).
- From their privilege tax obligation, employers can deduct up to 50% of its average expenses of providing health insurance benefits to any employee currently enrolled in TennCare or any employee who was enrolled in TennCare for more than 60 days within the last five years.
- It is estimated that employers would not offer these employees company-provided health insurance benefits.
- The 50% tax credit received would be offset by the remaining 50% paid on the behalf of the employee to be enrolled in a company-provided plan.
- Since businesses would incur additional administrative costs to manage company-provided plans, they would choose not to offer them. They would pay the tax and avoid the incremental administrative costs.
- The increase to state expenditures for the DOR to administer this new tax is estimated to exceed $700,000 per year.
- One-time state expenditures for new tax form development, computer programming, and software modifications are estimated to be $450,000.
- For the purposes of promulgating rules and regulations, this act shall take effect upon becoming a law. For all other purposes this act shall take effect on January 1, 2007.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director